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JUN 11 1998

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
Applications of WorldCom, Inc. and	)	
MCI Communications Corporation for	)	CC Docket No. 97-211
Transfer of Control of MCI	)	
Communications to WorldCom, Inc.	)	
	)	

COMMENTS OF SPRINT CORPORATION

Leon M. Kestenbaum
Jay C. Keithley
Michael B. Fingerhut
1850 M Street, N.W., 11th Floor
Washington, D.C. 20036
(202) 828-7438

Counsel for Sprint Corporation

June 11, 1998

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COMMENTS OF SPRINT CORPORATION

Sprint Corporation ("Sprint"), pursuant to the Commission's Public Notice DA 98-1059 released June 4, 1998 in the above-captioned proceeding, hereby respectfully submits its Comments on MCI's *ex parte* submission filed June 3, 1998 in response to request by the staff of the Common Carrier Bureau for "information on the proposed divestiture of MCI's Internet backbone business to Cable & Wireless ." June 3, 1998 letter to Magalie Roman Salas, Secretary, F.C.C. from Mary L. Brown of MCI.

I. INTRODUCTION AND SUMMARY.

MCI's filing here does not fully and completely disclose the proposal under which MCI will sell certain of its Internet assets to Cable & Wireless ("C&W").[1] However, the filing does add a few more details to what has been reported thus far by various media. And, such additional information only serves to confirm Sprint's initial suspicions, as discussed with Commission staff

[1]Only the filing of the actual agreement(s) between MCI and C&W, together will all side agreements and letters, would put the Commission and interested parties in a position to properly analyze MCI's so-called "divestiture" of Internet assets to C&W.

at a meeting on May 29, 1998 (*see* June 1, 1998 Letter to Magalie Salas from Michael B. Fingerhut of Sprint), that the proposal will do little, if anything, to resolve the severe threat to Internet competition created by the merger of MCI and WorldCom and the combination of their Internet businesses.

In its Comments filed March 13, 1998, Sprint explained that the combination of the Internet backbone networks of MCI and WorldCom (which has itself already acquired the Internet backbone networks of UUnet, ANS, and Compuserve) will significantly reduce competition in the core Internet backbone market worldwide. Thus, Sprint stated that Commission must condition the merger of MCI and WorldCom on the complete divestiture of either MCI's or WorldCom's Internet operations. Only this type of structural solution will maintain the current competitive balance among core Internet backbone providers; enable the Commission to ensure that the core Internet backbone market remains competitive; and, avoid the need for the Commission to regulate this market.[2]

MCI's proposal to sell parts of its Internet business to C&W falls far short of the type of structural remedy necessary to ensure the continued competitiveness of the core Internet backbone market. Rather than maintaining the level of competition pre-merger, the divestiture would render C&W a mere shadow of the pre-merged MCI, by making C&W highly dependent on WorldCom/MCI for its customers and its facilities. Instead of preserving a competitive

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[2]Both the U.S. Department of Justice ("DOJ") and the European Union ("EU") are also examining the danger of allowing MCI and WorldCom to achieve dominance in this market by combining their Internet businesses and have discussed divestiture as a solution with MCI and WorldCom. *Ex parte* at 4. Indeed, as EU Commissioner Van Miert has stated, "any overlap between WorldCom and MCI should be eliminated without any doubt." *See* <http://biz.yahoo.com/ finance/980525/europe_wor_1.html>. Moreover, with respect to MCI's proposal to sell part of its Internet business to C&W, Commissioner Van Miert recently observed that "[t]hey [*i.e.*, MCI and WorldCom] tried to keep as much as they possibly could and we said 'not that's not what we had in mind'." *See* <http://www.news.com/News/Item/0,4,22877,00.hmtl>.

marketplace, the proposed MCI-C&W transaction would: (1) create a WorldCom/MCI with increased market power, and (2) produce a C&W Internet entity that would be a woefully weaker competitor than MCI.[3]

Sprint demonstrates below that MCI's proposal here is not an effective solution to the competitive problems raised by the merger of WorldCom and MCI. In Section II, Sprint shows that substantial parts of MCI's Internet business are not being transferred to C&W. In Section III, Sprint explains why the proposed partial divestiture will not enable C&W to replace MCI as a core Internet backbone provider and what additional steps are needed to enable C&W to succeed to that position. And, in Section IV, Sprint discusses why the proposed transaction threatens to disrupt the relative bargaining positions of core backbone providers by enhancing the position of a merged WorldCom/MCI entity.

II. THE MCI/C&W TRANSACTION DOES NOT CONTEMPLATE THE COMPLETE DIVESTITURE OF INTERNETMCI.

The most that can be said for the proposed transaction between MCI and C&W, as described in the MCI/C&W press release, dated May 28, 1998, and as amplified somewhat in MCI's *ex parte* submission to the Commission, is that it is a partial divestiture of MCI's Internet business. MCI apparently is only selling to C&W part of its physical Internet plant; its peering arrangements; and some of its contracts with Internet Service Providers ("ISPs"). *See Ex parte* at

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[3] According to MCI, C&W has "substantial experience and expertise in providing Internet services, not only in the Pacific, the Caribbean, and Europe, but also in the United States where it operates a national backbone network providing transit, peering, and other services." *Ex parte* at 5. MCI provides no details that would enable the Commission or the parties to verify that C&W has "substantial world-wide Internet expertise." *Id.* As far as Sprint is aware, C&W has only a *de minimis* presence in the Internet market in the United States. Moreover, C&W may not have the ability to provide the one-stop shopping capability that internetMCI currently offers its customers.

6-7. Thus, C&W will not receive as part of the sale:

- **MCI's large commercial Internet customers.** These customers are large businesses that usually have dedicated access to the Internet from their corporate and regional offices where they have an aggregation of users and/or they have corporate web pages. They also require dial-up connectivity for their small office and home office users. The employees of large business customers use Internet access to "surf the web" for market/competitive research and for partner communications (e.g., Extranet's). They also are starting to use the Internet for some of their intra-company applications. Large business customers buy high speed connectivity to connect their web pages to the Internet, which adds "content value" to the large backbone providers network.

- **Customers of MCI's value-added Internet services such as web-hosting and Intranet services.** Unlike commercial customers whose sites are linked to a core Internet backbone provider's network, these customers' sites are on the core Internet backbone provider's network. This customer class is a large generator of Internet traffic if its addresses are (a) desirable and (b) can only be accessed through the core Internet backbone provider.

- **MCI's Internet Content Providers.** These customers include commercial sites that provide Internet content (*e.g.*, Ford Motor Company, CNN, New York Times) and ISPs whose primary business is the provision of content rather than Internet access (*e.g.*, Yahoo, America Online, and Microsoft, all of which are either on WorldCom's or MCI's Internet backbone and none of which will be divested to C&W).

- **MCI's government Internet customers.** These customers consist of federal, state and local entities that contract with core Internet backbone providers for Internet services. An example is the U.S. government which has Internet2 and vBNS agreements with MCI.

- **MCI's residential/Small Business Access Internet customers.** These customers are dial-up end users that want easy to use, inexpensive access to the Internet.

- **internetMCI's customer service and billing operations**.

- **International Internet connectivity that MCI may obtain through its relationship with Concert Communications.**

- **Almost all of MCI's Internet personnel.** MCI will transfer only 50 persons to C&W.

III. THE MCI/C&W TRANSACTION WILL NOT ENABLE C&W TO SUCCEED TO MCI'S COMPETITIVE POSITION IN THE CORE INTERNET BACKBONE MARKET.

The objective of any structural remedy to the dangers presented by the combination of the Internet businesses of WorldCom and MCI is to maintain the competitive balance that currently exists among core Internet backbone providers.[4] Otherwise, WorldCom/MCI would have the ability and incentive to (i) implement or increase peering charges that raise their rivals' costs, and (ii) degrade the quality of their rivals' interconnection to the WorldCom/MCI backbone. The result would be to reduce the quality or raise the price of their rivals' backbone services, making them less effective competitors.

A. The Conditions Included In The MCI/C&W Transaction Will Severely Limit, If Not Prevent, C&W From Becoming A Core Internet Backbone Provider.

MCI's proposed sale of certain Internet assets to C&W fails to maintain the current competitive balance among core backbone providers. In fact, the deal includes certain conditions that will substantially weaken C&W's ability to compete in the core Internet backbone market. For example, MCI apparently has agreed to lease all of the underlying telecommunications transport services that support the divested business for a period of two years on "competitive commercial terms." *Ex parte* at 6. MCI does not define "competitive commercial terms." But, if these terms are less favorable than the internal or shadow price MCI charges itself, C&W will not be as strong a competitor as internetMCI pre-merger.

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[4] *See An Economic Analysis of the Impact of the WorldCom-MCI Merger on the Provision of Internet Backbone Services* prepared for Sprint by Charles River Associates for an explanation as to why a structural remedy should be favored over regulation to remove the anticompetitive effects of the merger. This analysis was furnished to the Commission as part of Sprint's May 29 *ex parte* presentation. *See* June 1, 1998 Letter to Magalie Salas from Michael B. Fingerhut.

C&W will also apparently be dependent on WorldCom/MCI to provide systems support to its Internet backbone, including ordering, provisioning, billing, management, and customer support services. In light of MCI's claim that C&W has "substantial expertise in providing Internet services," it is difficult to understand why C&W will need to secure these support services from MCI. In any case, C&W's dependency upon MCI in this regard further weakens C&W's competitive position in the core Internet backbone market.

To make matters worse, C&W will be prevented under the terms of the agreement from competing for MCI's current retail Internet customers. *See id.* at 8 (C&W will not be able "to contract for retail Internet services with MCI's current commercial Internet customers for a period of two years or the term of the customer's existing contract with MCI, whichever is shorter"). As a result, C&W will be precluded from competing for most of MCI's current customers. On the other hand, although the agreement precludes WorldCom/MCI from contracting to provide Internet services to MCI's ISP customers being transferred to C&W for a period of two years, under what is described as a "limited exception," WorldCom/MCI can compete for the business of any such ISP that currently purchases Internet access from WorldCom. This means that while C&W will be unable to compete for many of internetMCI's customers, WorldCom/MCI will be able to compete for many of C&W's customers. This one-sided arrangement hardly enhances C&W's ability to "continue [MCI's Internet] business as a healthy, growing enterprise." *Id.* at 4.

B. MCI's Proposed Divestiture Must Be Substantially Modified If C&W Is To Replace InternetMCI As A Core Internet Backbone Provider.

Because of these conditions, and because end user customers, Intranet, web-hosting, and other vertical services currently provided by MCI will, in the future, continue to be provided by the merged parties and not by C&W, it is clear that the proposed divestiture would not put C&W

in the same competitive position in the core Internet backbone market that MCI was in prior to the proposed WorldCom/MCI merger. The only way that C&W could assume such position is for the following to occur:

1. MCI must transfer all of Its Internet customers.

Customers are fundamental if C&W is to obtain the critical mass necessary to peer with other core Internet backbone providers on a competitive basis. For C&W to be an effective competitive replacement for internetMCI, therefore, MCI's entire Internet customer base must be transferred to C&W. But, as stated, MCI is not transferring the entire customer base of internetMCI. MCI will retain (1) its residential/small business Internet access customers; (2) its large commercial customers; (3) its government customers; (4) its web hosting customers; and, (5) its customers providing Internet content. All of these customers can be, and usually are, served by core Internet backbone providers.

The only type of customer that MCI proposes to transfer to C&W is the ISP category whose primary business is reselling Internet access. These customers buy transit access from the core Internet backbone providers in order to resell Internet access to their customers. The ISP customers typically also deploy a regional or local network for dial-up connectivity by residential or business users and aggregate their users and connect their networks to a large backbone provider for access to the Internet.

Of course, MCI makes much of the transfer of its ISP customers. It alleges that C&W will receive contracts worth approximately $200 million by "replace[ing] MCI as the provider of backbone services to more than 1300 domestic and international ISP customers that now obtain Internet access from MCI." *Ex parte* at 7. But the value of the average contract transferred to C&W is only about $150,000, suggesting that the ISPs being transferred to C&W are relatively small firms. Moreover, MCI's retail operation, which, according to MCI generates $100 million in revenue, *id.*, is logically indistinguishable from the 1,300 ISPs that are being transferred to C&W. Thus, there is no justification for MCI's decision to retain its largest ISP customer -- MCI itself.[5]

It is clear that a relatively small portion of internetMCI's customer base is being transferred to C&W. For this reason alone, C&W will be a substantially weaker participant in the core Internet backbone market and will not be what internetMCI was pre-merger.

2. MCI must license its Internet brand to C&W.

Although C&W has its own brand name, C&W's mark is known primarily for telecommunications services and not Internet services. The C&W brand, therefore, may not be sufficient to enable C&W to retain the ISP reseller customers being divested to it, or to enable it to obtain new customers.[6]

Brand name is critical to success of new participants in a market. As the Commission explained in the *Bell Atlantic/Nynex Merger Order*, 12 FCC Rcd 19985, 20012 (¶42) (1997),

> [f]or mass market services, entrants will have to invest in establishing the brand name recognition and, even more importantly, the mass market reputation for providing high quality telecommunications services. These consumer "goodwill" assets take significant amounts of time and resources to acquire.

[5]MCI is more than 600 times the size as measured by revenues of the average ISP being transferred to C&W. Although MCI apparently will guarantee to deliver a certain level of traffic to the Internet backbone it is selling to C&W, such guarantee is limited in duration and possibly in scope and does not serve to the mitigate the fundamental competitive problems raised by the proposed merger of MCI and WorldCom. *See* Section IV *infra*.

[6]The fact that the merged WorldCom/MCI entity will be able to compete for the business of any of the transferred ISPs that also take backbone service from WorldCom makes C&W's ability to retain such ISPs problematic in any case.

Since ISP customers are similar to the small businesses included by the Commission in its definition of the mass market, the concern expressed by the Commission in connection with the Bell Atlantic/Nynex merger is relevant to MCI's proposed divestiture here. Therefore, in order to permit C&W to be as effective competitor as was MCI pre-merger, C&W should be granted a royalty-free license for the use of the internetMCI trademark for a transitional period.

3. C&W must be able to develop a relationship with MCI's customers that will utilize the backbone facilities being transferred by MCI.

Although C&W will be carrying MCI customer traffic for a period of two years, C&W will be deprived of any relationship with these customers. Thus, at the end of the two years, WorldCom/MCI can seamlessly transfer these customers to its own network. Indeed, the agreement apparently contemplates "a gradual phase-out" of MCI's commitment to purchase backbone capacity from C&W. *Ex parte* at 7. Additionally, most of C&W's ISP customers will continue to obtain a package of voice, data, fax, and other communications services from MCI, and will see a single MCI bill for all these services. The discounts these customers obtain from MCI are likely to be based on the total size of their bill, providing them with a strong incentive to obtain all their telecommunications services, including Internet services, through MCI. Even worse, from a competitive standpoint, is that these customers will think of themselves as MCI customers, and would not even be able to tell if, after the termination of the two-year traffic agreement, they were transferred to the WorldCom/MCI backbone.

An acceptable divestiture would allow C&W to purchase all the inputs it needs to supply one-stop shopping to customers from MCI at reasonable wholesale rates, and to own the customer relationship. The proposed divestiture turns this proposition on its head: it allows MCI to maintain the customer relationship, to provide most or all inputs to the service, and to purchase at wholesale relatively few inputs from C&W. The fact that some MCI traffic flows over facilities leased by MCI to C&W is irrelevant to the fundamental issue. The large customer base (or set of desirable addresses) that will be able to be reached only through WorldCom/MCI after the merger is evidence that MCI's proposed agreement with C&W is not a true divestiture.[7] MCI's close association with these customers and its continued control of the underlying transport facilities will leave C&W dependent on MCI. Currently, MCI is not similarly dependent on any other competitor.

4. MCI must transfer all of its Internet personnel to C&W.

For C&W to be an effective stand-alone entity capable of replacing internetMCI, MCI must divest to C&W the appropriate personnel to manage, operate and administer the Internet business. For example, Sprint, whose Internet business is smaller than that of MCI, employs ___ operational personnel, ___ product managers and ___ engineers dedicated to its Internet business. In addition, it employs ___ sales people, and over ___ sales support personnel who devote part of their time selling and supporting Internet customers. Sprint has hundreds of shared customer service personnel who support ordering, provisioning, implementation, billing and trouble management. Additionally, its core Internet backbone is supported by hundreds of shared personnel who work on underlying infrastructure, ranging from the fiber optic network facilities, entrance facilities connecting its Points of Presence to its backbone nodes, and SONET and Wave Division Multiplexing facilities. Sprint also employs hundreds of shared personnel who develop

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[7]While MCI has offered to transfer "assignment of Internet addresses" to C&W, *Ex parte* at 6, it is not clear whether MCI will retain some Internet addresses. A complete divestiture would seem to require that ownership of all addresses be transferred.

and support the underlying systems associated with the Internet services. All of these personnel compare with MCI's proposed transfer of only 50 persons to C&W.

IV. THE MCI/C&W TRANSACTION WILL NOT MAINTAIN EXISTING CONDITIONS OF COMPETITION

The proposed partial divestiture of internetMCI to C&W threatens to disrupt the balance of bargaining power among core backbone providers by enhancing the position of the merged WorldCom/MCI entity and replacing the pre-merger MCI with a substantially weaker provider of core Internet backbone services. MCI's decision to retain its residential and non-ISP commercial customers ensures that the merged entity will be able to exercise substantial market power in the core Internet backbone market post-merger.

MCI's proposed limited term traffic guarantee to C&W does not alter this conclusion. Under the proposed arrangement, C&W would, for a period of at least two years, carry the traffic generated by internetMCI's residential and commercial customers.[8] However, because MCI would be free to transfer this traffic to WorldCom's core Internet backbone facilities at the end of the period covered by the traffic guarantee, this guarantee does not deal with the fundamental competitive concern raised by the merger: increased concentration among core Internet backbone providers.[9] Therefore, the proposed divestiture does not address the anti-competitive effects of

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[8] "Carry" may be something of a misnomer since the traffic would continue to be routed over transmission facilities owned by MCI.

[9] It should be noted that the traffic and revenue guarantees are based on MCI's current and anticipated retail business. *Ex parte* at 8. Thus, to the extent that MCI's Internet business grows more rapidly than anticipated, a significant amount of internetMCI's traffic may be carried by the WorldCom/MCI entity even during the two-year period covered by the guarantees. That is, the C&W backbone will not benefit if the traffic of one of its major ISP customers, internetMCI, grows at an unexpectedly rapid rate. This is obviously quite different from the situation of the current core backbones who can expect their traffic to grow with that of their ISP customers.

the merger as identified in Sprint's March 13, 1998 filing in this proceeding.[10]

A virtuous circle of cooperation and competition currently characterizes the Internet. Core backbone providers have powerful incentives to interconnect with one another since no single backbone provider can supply its customers with universal connectivity, and no single backbone provider is large enough to make a credible threat to disconnect from other backbone providers, or to degrade interconnection to them. At the same time, each core backbone provider has an incentive to provide transit at low prices in order to attract a critical mass of end users and ISP customers which, in turn, makes it an attractive peering partner. The resulting balance of bargaining power among core backbone providers sustains the virtuous circle. Therefore, the most important criterion for evaluating the proposed divestiture is its effects on the bargaining power of C&W and WorldCom/MCI in future negotiations of peering relationships.

Sprint has previously documented for the Commission how the bargaining power of a core backbone provider is derived from the number of desirable addresses that are uniquely reachable directly and indirectly through that backbone provider. *See An Economic Analysis of the Impact*

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[10]The proposed divestiture is also inadequate because it does not address the relationship between internetMCI and Concert, which may result in C&W obtaining global Internet connectivity on significantly inferior terms to those currently obtained by MCI. In its *Ex parte* at 7, MCI states: "[f]or international ISP customers, C&W will obtain not only the domestic portion of the backbone service but also (pursuant to a favorable two year lease from MCI) the international circuits and domestic backhaul facilities used to connect foreign ISPs to nodes on the U.S. backbone." It is not clear whether these favorable terms are the same as those currently available to internetMCI. If the terms are worse, C&W will have higher costs than MCI and will be a less effective competitor.

Another possibility is that MCI obtains global connectivity in part through a special arrangement with Concert, a joint venture of British Telecom and MCI. If this is the case -- and Sprint has no way of knowing whether it is -- then traffic exchanged by MCI and Concert may currently be considered traffic internal to the internetMCI network. As such, it is not clear that C&W would inherit MCI's rights to interchange traffic with Concert on the same terms enjoyed by MCI. The Commission will not be able to judge whether the divestiture maintains the current competitive balance in the core Internet backbone market unless the MCI describes its relationship with Concert, and any proposed relationships between Concert and C&W and Concert and WorldCom/MCI. Competition will be diminished unless C&W continues to have access to Concert on the terms currently available to MCI, or on the terms available to WorldCom after the merger, whichever are more favorable.

of the WorldCom-MCI Merger on the Provision of Internet Backbone Services. WorldCom and MCI have likewise characterized peering relationships as "commercial bargains" based on an exchange of value, where value is based on the number of customers, desirable web sites, and other factors that Internet end users are willing to pay for.

It follows that C&W will be able to retain the bargaining power previously possessed by internetMCI only if all desirable addresses currently reachable only through internetMCI continue to be reachable only through C&W. Any arrangement that reduces the number of addresses reachable only through C&W must necessarily reduce C&W's bargaining power. Under the proposed divestiture, one of the internetMCI backbone's most important ISP customers -- MCI itself -- is not part of the transaction. MCI's proposed retention of its end user customers, along with web-sites and vertical services, will significantly reduce the value that C&W will bring to potential peers.[11] MCI's retail operations are indistinguishable from the ISPs that MCI is transferring to C&W, and these retail operations must also be transferred to C&W if it is to have the same power in negotiating peering relationships as did the pre-merger internetMCI.

After two years, MCI's non-ISP customers will presumably be reached through WorldCom/MCI and not through C&W. However, even if, after the end of the period covered by the traffic guarantee, WorldCom/MCI chooses to continue to send this traffic over the C&W backbone, the bargaining power in peering relationships will be possessed by WorldCom/MCI,

[11] As noted, it appears that MCI's government contracts, including the provision of high-speed backbone services (the vBNS), will also be retained by MCI, since the government is an end user, and not an ISP purchasing wholesale service. These contracts are important, both from a financial point of view, and for the credibility they bring to MCI. The failure to transfer these contracts to C&W may have a substantial impact on C&W's attractiveness as a potential peer, and on its ability to replace MCI as a strong competitor in the core Internet backbone market.

not C&W. That is because that traffic will effectively belong to WorldCom/MCI. Only WorldCom/MCI can determine on which backbone that traffic will be carried. Therefore, the proposed divestiture would leave C&W with substantially less bargaining power than internetMCI currently possesses.

The fact that the guaranteed traffic "belongs" to MCI, combined with the fact that MCI is a very large ISP, means that MCI will continue to have enormous bargaining power in its dealing with C&W. If MCI were merely a large ISP, this fact would be benign since it would affect only the relationship between MCI and C&W. However, because MCI will be part of a company that will continue to be a core Internet backbone provider, that is not the case. In these circumstances, MCI can increase WorldCom/MCI's bargaining power directly, by shifting the MCI traffic to the WorldCom/MCI core backbone when MCI's traffic guarantee to C&W ends. It can also increase WorldCom/MCI's bargaining power indirectly, by using the threat to shift traffic at the end of the traffic guarantee, or at some later time, to induce C&W to do WorldCom/MCI's bidding. This could occur, for example, by having C&W upgrade connections to WorldCom/MCI's core Internet backbone more rapidly than it upgrades connections to Sprint's or GTE's core Internet backbone. Indeed, overt threats may not be necessary since C&W will undoubtedly recognize the benefits of supporting the interests of its major customer.

MCI's ability to determine where to send its traffic after the two-year guarantee period is likely to have significant anti-competitive effects even before the guarantee period expires. Given the importance of MCI traffic to C&W, C&W is likely to try to behave in a way that encourages MCI not to shift traffic to the WorldCom/MCI core backbone at the completion of the traffic guarantee. As a result, WorldCom/MCI could immediately, and certainly eventually, get much of the same increase in bargaining power as it would have obtained directly by combining the separate backbone businesses of WorldCom and MCI.

Therefore, the fundamental problem with the proposed divestiture is that it does not address the question of bargaining power among core backbone providers. By focusing on one class of customers (ISPs) and not on the relative bargaining power of peering backbone providers, it leaves MCI with much of the bargaining power that internetMCI currently possesses.

Revenue and traffic guarantees of the sort described in the press release and in MCI's *ex parte* to the Commission are not meaningful remedies to the problems identified above. Customers are not just purchasers of service, they are also the commodities sold. A provider without customers that it "owns" directly or indirectly lacks the bargaining power necessary to be a core provider since it does not have the commodity that is in demand. The lawsuit by Level 3 Communications Inc. against WorldCom and MCI (*see* "Level 3 Assails the WorldCom-MCI Deal," Wall Street Journal, May 20, 1998, Section B, p. 10) clearly shows that the possession of a network without customers does not confer sufficient bargaining power to permit entry into the market for core connectivity. The proposed divestiture would leave all non-reseller ISP internetMCI customers with MCI.

If MCI transferred all of its Internet customers to C&W, it could win them back only by launching marketing initiatives, offering better service or reducing prices. Instead, MCI is proposing to retain its non-ISP customers so that others, including C&W, will be required to win them with marketing efforts, better service, or lower prices. The substantial costs of customer acquisition are thus shifted from MCI, where they would properly belong with a complete divestiture, to C&W and other competitors.

Further, although MCI proposes to divest twenty-two backbone nodes to C&W, it will still retain several hundred other nodes that are used to aggregate customer traffic to distant destinations for delivery to the MCI-C&W backbone. These nodes are closer to most end user and ISP customer nodes than the twenty-two backbone nodes. Thus, when C&W provides Internet services to a customer, it may have to establish a new node near the customer and a backhaul link to its backbone or lease a private line that connects the customer to the nearest of C&W's twenty-two nodes. These additional costs will be incurred by C&W (but not by the pre-merger MCI) because MCI is transferring only a part of its Internet operations to C&W. The costs of the several hundred customer access nodes and the backhaul links to the backbone nodes that are not being transferred to C&W are substantial and place C&W in a competitively weaker position than MCI. The acquisition of customers and the piecemeal construction of the customer access nodes and backhaul links is likely to take time and resources. Indeed, difficulties in building out the network may limit the rate at which C&W acquires customers, as was true for America Online during 1997. The retention of customer Internet nodes by MCI provides additional evidence -- as if more was needed --that the proposed divestiture will not sufficient to preserve competition in the core Internet backbone market.

V. CONCLUSION.

For a divestiture by either WorldCom or MCI to be efficacious, it must permit competition to be maintained in the core Internet backbone market. To do this, either WorldCom's or MCI's entire Internet backbone, including customers, personnel and brand name must be divested or control transferred such that the spun-off business will be an effective competitor in this market. Because of the way MCI has structured its Internet business, Sprint believes that it may be extremely difficult for MCI to fully divest its Internet business. However, such difficulty does not foreclose the possibility that an effective remedy can be implemented.[12]

If the divestiture were to proceed as proposed by MCI, competition would be severely reduced because WorldCom/MCI would have the ability and incentive to monopolize the core Internet backbone market. On the other hand, if MCI divests its entire Internet business, competition in this market will be maintained and regulation will be unnecessary.

Respectfully submitted,

SPRINT CORPORATION

Leon M. Kestenbaum
Jay C. Keithley
Michael B. Fingerhut
1850 M Street, N.W., 11th Floor
Washington, D.C. 20036
(202) 828-7438
Its Attorneys

June 11, 1998

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[12] Sprint believes that a divestiture of internetMCI could be structured that would alleviate most of the anticompetitive effects of the WorldCom/MCI merger, but it is concerned that such a remedy would include behavioral conditions, which themselves would be difficult to enforce.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing **COMMENTS** of Sprint Corporation was sent by hand or by United States first-class mail, postage prepaid, on this the 11th day of June, 1998 to the parties on the attached list.

Christine Jackson

Christine Jackson

June 11, 1998

Daniel B. Phythyon, Chief
Wireless Telecommunications Bureau
Federal Communications Commission
2025 M Street, N.W.
Room 5002
Washington, DC 20554

Thomas C. Power*
Office of the Chairman
Federal Communications Commission
1919 M Street, N.W.
Room 814
Washington, DC 20554

Chairman William E. Kennard*
Federal Communications Commission
1919 M Street, N.W.
Room 814
Washington, D.C. 20554

Commissioner Susan Ness*
Federal Communications Commission
1919 M Street, N.W.
Room 832
Washington, D.C. 20554

Commissioner Harold Furchtgott-Roth*
Federal Communications Commission
1919 M Street, N.W.
Room 802
Washington, D.C. 20554

Commissioner Michael Powell*
Federal Communications Commission
1919 M Street, N.W.
Room 844
Washington, D.C. 20554

Commissioner Gloria Tristani*
Federal Communications Commission
1919 M Street, N.W.
Room 826
Washington, D.C. 20554

Magalie Roman Salas*
Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, D.C. 20554

Rebecca L. Dorch
Competition Division
Office of General Counsel
Federal Communications Commission
1919 M Street, N.W.
Room 650-F
Washington, DC 20554

Office of the Chief*
Network Services Division
Federal Communications Commission
2000 M Street, N.W.
Room 235
Washington, DC 20554

Anna M. Gomez, Deputy Chief*
Network Services Division
Common Carrier Bureau
Federal Communications Commission
2000 M Street, N.W.
Room 235
Washington, DC 20554

Greg Cooke*
Common Carrier Bureau
Federal Communications Commission
2000 M Street, N.W.
Room 235
Washington, DC 20554

Janice Myles*
Common Carrier Bureau
Federal Communications Commission
1919 M Street, N.W.
Room 544
Washington, D.C. 20554

International Reference Room
International Bureau
Federal Communications Commission
2000 M Street, N.W.
Room 102
Washington, DC 20554

James Casserly*
Office of Commissioner Ness
Federal Communications Commission
1919 M Street, N.W.
Room 832
Washington, DC 20554

Kyle Dixon*
Office of Commissioner Powell
Federal Communications Commission
1919 M Street, N.W.
Room 844
Washington, DC 20554

Paul Gallant*
Office of Commissioner Tristani
Federal Communications Commission
1919 M Street, N.W.
Room 826
Washington, DC 20554

Melissa Waksman*
Office of Commissioner Furchtgott-Roth
Federal Communications Commission
1919 M Street, N.W.
Room 802
Washington, DC 20554

Lawrence Strickling, Chief
Competition Division
Office of the General Counsel
Federal Communications Commission
1919 M Street, N.W.
Room 658
Washington, DC 20554

Kent Nilsson, Deputy Chief*
Network Services Division
Common Carrier Bureau
Federal Communications Commission
2000 M Street, N.W.
Room 235
Washington, DC 20554

William B. Barfield
Jonathan Banks
BELLSOUTH CORPORATION
Suite 1800
1155 Peachtree Street, N.E.
Atlanta, Georgia 30309-3610

George Kohl
Senior Executive Director, Research and Development
Communications Workers of America
501 Third Street, N.W.
Washington, D.C. 20001-2797

John J. Sweeney
President
American Federation of Labor and Congress of Industrial Organizations
815 16th Street, N.W.
Washington, D.C. 20006

Janice Mathis
General Counsel
Rainbow/PUSH Coalition
Thurmond, Mathis & Patrick
1127 W. Hancock Avenue
Athens, GA 30603

David Honig
Special Counsel
Rainbow/PUSH Coalition
3636 16th Street, N.W., #B-366
Washington, D.C. 20010

Matthew R. Lee, Esq.
Executive Director
Inner City Press/Community on the Move &
Inner City Public Interest Law Project
1919 Washington Avenue
Bronx, NY 10457

Wireless Reference Room (2 Copies)
Wireless Telecommunications Bureau
Federal Communications Commission
2025 M Street, N.W.
Room 5608
Washington, DC 20554

International Transcription Services, Inc.
2100 M Street, N.W.
Suite 140
Washington, DC 20037

Richard E. Wiley
R. Michael Senkowski
Jeffrey S. Linder
Peter D. Shields
WILEY, REIN & FIELDING
1776 K Street, N.W.
Washington, D.C. 20006

Michelle Carey
Common Carrier Bureau
Feceral Communications Commission
1919 M Street, N.W.
Room 544
Washington, D.C. 20554

Anthony C. Epstein
John B. Morris
Ian H. Gershengorn
JENNER & BLOCK
601 Thirteenth St., N.W.
Washington, D.C. 20005
(202) 659-6000

Catherine R. Sloan
Robert S. Koppel
WORLDCOM, INC.
1120 Connecticut Avenue, N.W.
Washington, D.C. 20036
(202) 424-1. 50

Alan Y. Naftalin
Gregory C. Staple
R. Edward Price
KOTEEN & NAFTALIN, L.L.P.
1150 Connecticut Avenue, N.W.
Washington, D.C. 20036

Andrew Jay Schwartzman
Gigi B. Sohn
Joseph S. Paykel
Media Access Project
Suite 400
1707 L Street, N.W.
Washington, D.C. 20036

John T. Nakahata, Chief of Staff*
Office of the Chairman
Federal Communications Commission
1919 M Street, N.W.
Room 814
Washington, DC 20554

Thomas A. Hart, Jr.
Amy E. Weissman
M. Tamber Christian
GINSBERG, FELDMAN AND BRESS
Chartered
1250 Connecticut Avenue, N.W.
Washington, D.C.

A. Richard Metzger, Chief*
Common Carrier Bureau
Federal Communications Commission
1919 M Street, N.W.
Room 500
Washington, DC 20554

Regina M. Keeney, Chief*
International Bureau
Federal Communications Commission
2000 M Street, N.W.
Room 800
Washington, DC 20054

Andrew D. Lipman
Jean L. Kiddoo
Michael W. Fleming
Counsel for WorldCom
Swidler & Berlin, Chartered
3000 K St., N.W., Suite 300
Washington, D.C. 20007

Michael H. Salsbury
Mary L. Brown
Larry A. Blosser
MIC Communications Corp.
1801 Pennsylvania Ave., N.W.
Washington, D.C. 20006

Ramsey L. Woodworth
Rudolph J. Geist
WILKES, ARTIS, HEDRICK & LANE,
Chartered
1666 K Street, N.W., Suite 1100
Washington, D.C. 20006

John Thorne
Sarah Deutsch
Robert H. Griffen
Attorneys for Bell Atlantic
1320 North Court House Road
8th Floor
Arlington, VA 22201

Andrew Lipman, Esq.
Counsel for WorldCom, Inc.
Anthony Epstein, Esq.
Counsel for MCI
Swidler & Berlin, Chartered
3000 K Street, N.W., Suite 300
Washington, D.C. 20007-5116